

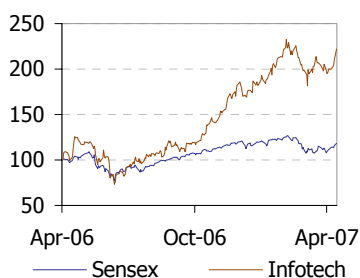
Infotech Enterprises

 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 46.1mn
Market cap	: Rs 17.0bn
52 week high/low	: Rs 447/ Rs.127
Avg. daily vol. (6mth)	: 153,800 shares
Bloomberg code	: INFTEC IN
Reuters code	: INFE.BO

Shareholding (%) Dec-06 QoQ chg

Promoters	: 28.7	(0.1)
FII's	: 11.6	(4.8)
MFs / UTI	: 23.0	5.6
Banks / FIs	: 0.0	0.0
Others	: 36.6	(0.6)

EMPLOYEE ADDITIONS HOLD THE KEY

Infotech's Q4FY07 results were a mixed performance. Topline growth QoQ was impacted by lower employee additions. PAT at Rs 249mn was driven by better profitability from associate company IASI and write-back of prior period provisions. Operating profit declined QoQ due to salary rationalization and increase in travel expenses.

Division evaluation

GSD vertical: Topline growth of ~7.3% QoQ was higher than our expectations despite INR appreciation, challenges in the North American subsidiary and lower employee additions (↑ 2.8% QoQ). 75% utilization rates and higher ramp-ups from key clients (Tele Atlas, KPN, Swisscom, BT) were instrumental in driving revenues.

EMI vertical: INR appreciation and lower employee additions (↑ 4.8 QoQ) led to lower topline growth at 4.5% QoQ for the EMI division. We are given to understand that this is largely a quarterly fluctuation and is not indicative of any lower growth rates. Further, the management indicates ~1,500 employee additions in FY08 (v/s 1,153 additions in FY07 - implying ~29% YoY increase in FY08). Around 60% (900) of these additions are expected in the EMI division as it contributes ~61.5% of revenues with ~45.9% resource bases. Thus the run-rate of the EMI division is likely improve in the coming quarters. Each of the new sub-verticals in the EMI space has received good traction, with 4 marquee clients.

Valuations: While Q4FY07 results have been lower than expectations and FY08 annual salary hikes of ~15-18% in Q1FY08 would impact the Q1FY08 performance, Infotech remains an excellent proxy of the booming engineering services outsourcing space. Its GSD division also has seen good traction from key clients. We are thus retaining our sector **Outperformer** rating at current valuations of 16.0x FY08E and 12.9x FY09E EPS. However, we remain concerned on the low forex cover of the company, which is at just USD 4-5mn.

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2006	3,625	503	-	11.0	95	15.9	27.3	27.0	11.5
2007	5,425	837	17.2	18.3	66	19.8	32.7	36.3	14.0
2008E	7,217	1,052	23.2	23.0	26	16.0	30.7	36.0	10.2
2009E	9,429	1,309	30.4	28.7	25	12.9	29.7	36.2	7.7

Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	1,512	1,078	40.3	1,430	5.7	7,217	5,425	33.0
EBIDTA	308	199	55.2	323	(4.5)	1,567	1,134	38.2
Other income	19	14	32.1	-	-	36	67	(46.1)
PBIDT	327	213	53.7	323	1.2	1,603	1,201	33.5
Depreciation	74	48	52.8	66	11.7	361	256	41.0
Interest	2	6	(62.9)	5	(52.1)	12	14	(13.7)
PBT	251	158	58.5	252	(0.5)	1,230	931	32.1
Tax	44	36	21.5	52	(16.7)	258	188	37.2
Share of JV	41	43	(4.6)	(12)	(436.6)	80	93	(13.5)
Adjusted PAT	249	166	50.0	188	32.6	1,052	837	25.7
No. of shares (mn)	46	46	-	46	-	46	46	-
EBIDTA margins (%)	20.4	18.4	-	22.6	-	21.7	20.9	-
PBIDT margins (%)	21.6	19.7	-	22.6	-	22.2	22.1	-
EPS (Rs.)	5.4	3.6	50.0	4.1	32.6	23.0	18.3	25.7

Source: Company, ENAM Research

Divisional Performance

(Rs mn)	Q4FY07	QoQ Chg (%)	YoY Chg (%)
Revenues			
GSD	583	7.3	24.0
EMI	929	4.5	53.3
Employee Base (nos)			
GSD	2,652	2.8	21.9
EMI	2,355	4.8	39.0
Client Performance			
Top 5	739	2.1	38.6
Top 10	1,025	5.2	50.5
Remaining	487	6.7	22.7
Geography Performance			
North America	679	(0.4)	22.7
Europe	761	13.1	61.6
Asia / Australia	73	(4.8)	34.3

Source: Company, ENAM Research

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